

Message Text

SECRET

PAGE 01 LONDON 05237 01 OF 05 081343Z

53

ACTION ACDA-10

INFO OCT-01 EUR-12 IO-10 ISO-00 ERDA-05 CIAE-00 H-02

INR-07 L-02 NSAE-00 OIC-02 OMB-01 PA-01 PM-03 PRS-01

SAJ-01 SAM-01 SP-02 SS-15 USIA-06 TRSE-00 NSC-05

BIB-01 AID-05 EB-07 CIEP-01 STR-04 CEA-01 COME-00

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S E C R E T SECTION 01 OF 05 LONDON 05237

SECRET

SECRET

PAGE 02 LONDON 05237 01 OF 05 081343Z

GENEVA FOR USDEL CSCE AND GENEVA FOR USDEL SALT

E.O. 11652: GDS
TAGS: OGEN, UK
SUBJECT: 1975 POLICY ASSESSMENT

REF: A. STATE 9732
B. STATE 32826
C. LONDON A-567, JULY 1, 1974

SUMMARY. UK IS A COUNTRY WHICH, MORE THAN ANY OTHER IN WORLD, SHARES U.S. ASSUMPTIONS AND OUTLOOK ON INTERNATIONAL AFFAIRS. OUR FUNDAMENTAL OBJECTIVE IN THIS COUNTRY SHOULD BE TO PROMOTE AND ENCOURAGE CONTINUATION OF THIS SITUATION, SINCE BRITISH WILL, BY AND LARGE, BE SUPPORTIVE OF OUR OBJECTIVES AND INTERESTS. EMBASSY ASSESSMENT IS THAT U.S. PERFORMANCE IN PURSUIT OF THIS OBJECTIVE IN 1974 WAS SATISFACTORY. IN COMING YEAR, HOWEVER, BRITISH WILL FACE PROBLEMS ON TWO FRONTS WHICH WILL IMPACT ON OUR CONTINUED SUCCESS. ON ONE HAND IS A DETERIORATING ECONOMIC SITUATION EVIDENCED BY AN ANNUAL INCREASE IN THE CONSUMER PRICE INDEX OF APPROXIMATELY 20 PERCENT AND A CURRENT ACCOUNT DEFICIT OF 3.8 BILLION POUNDS IN 1974. ON THE INTERNATIONAL FRONT, BRITISH PUBLIC WILL BE CONFRONTED WITH WATERSHED DECISION IN JUNE REFERENDUM WHICH WILL DETERMINE WHETHER BRITAIN WILL CAST ITS LOT WITH WIDER EUROPEAN GROUPING, OR DECIDE TO "GO IT ALONE", GIVING FIRST PRIORITY TO CULTIVATION OF ITS OWN GARDEN. U.S. INTERESTS ARE ON THE BLOCK IN BOTH OF THESE AREAS, ALTHOUGH THERE IS RELATIVELY LITTLE WE CAN DO TO INFLUENCE OUTCOME ON EITHER ISSUE. IF BRITISH INSTITUTIONS, SO SIMILAR TO OURS, FAIL TO COPE WITH ECONOMIC PROBLEMS, BRITAIN WILL BE A WEAKENED, DEBILITATED PARTNER. IF SHE SUCCEEDS, WE CAN GAIN IN TERMS OF FINDING SOLUTIONS TO SOME OF THE SAME PROBLEMS OURSELVES AND DEMOCRATIC INSTITUTIONS GENERALLY WILL BE STRENGTHENED. BRITISH WITHDRAWAL FROM THE EEC WOULD PROBABLY BE A MAJOR SETBACK TO THE OBJECTIVE OF A STRONGER, OUTWARD-LOOKING EUROPE, ALTHOUGH CONTINUED BRITISH MEMBERSHIP IN THE EC IN ITSELF DOES NOT GUARANTEE THAT A NARROWLY-FOCUSED, PROTECTIONIST, NATIONALISTIC EUROPE WILL NOT DEVELOP. END SUMMARY.

SECRET

SECRET

PAGE 03 LONDON 05237 01 OF 05 081343Z

1. WE BELIEVE THE FUNDAMENTAL OBJECTIVE OF THE U.S. IN THE UK IS TO MAINTAIN THE CLOSEST POSSIBLE BILATERAL RELATIONSHIP SO AS TO PROMOTE BRITISH POLICIES THAT COMPLEMENT AND SUPPORT THOSE OF THE U.S. THE EMBASSY SHOULD PLAY AN IMPORTANT ROLE IN THIS EFFORT BY COORDINATING THE MYRIAD RELATIONSHIPS WHICH EXIST AT ALL LEVELS. UTILIZING AN INTEGRATED STAFF, THE EMBASSY SHOULD WORK TO

ASSURE THAT ALL U.S./UK ACTIVITIES GENERATE UK SUPPORT FOR U.S. POLICIES. OUR ASSESSMENT IS THAT THIS OBJECTIVE WAS MET IN 1974 AND WAS MADE EASIER BY THE EFFORTS OF THE LABOR GOVERNMENT TO HARMONIZE RELATIONS WITH U.S. ALL ELEMENTS OF THIS MISSION WORKED TOGETHER TO SUPPORT THE OBJECTIVE. THE RESULT WAS EXCELLENT CONSULTATION AND, TO A SIGNIFICANT DEGREE, COORDINATED U.S./UK POLICIES ON MAJOR ISSUES.

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SECRET

PAGE 01 LONDON 05237 02 OF 05 081349Z

53

ACTION ACDA-10

INFO OCT-01 EUR-12 IO-10 ISO-00 ERDA-05 CIAE-00 H-02

INR-07 L-02 NSAE-00 OIC-02 OMB-01 PA-01 PM-03 PRS-01

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S E C R E T SECTION 02 OF 05 LONDON 05237

SECRET

SECRET

PAGE 02 LONDON 05237 02 OF 05 081349Z

IN THE CONTEXT OF THIS CLOSE ANGLO-AMERICAN RELATIONSHIP THE EMPHASIS IS LIKELY TO CONTINUE TO SHIFT TOWARDS ECONOMIC ISSUES. WE BELIEVE THE CLOSEST POSSIBLE CONSULTATION AND COOPERATION WITH THE UK WILL BE REQUIRED, NOTABLY IN FINANCIAL AND ENERGY AFFAIRS AND IN THE INCREASINGLY COMPLEX AREA OF DEVELOPED COUNTRY RELATIONS WITH THE DEVELOPING WORLD. THE EMBASSY LOOKS FORWARD TO PLAYING AN INCREASING ROLE IN THE COORDINATION OF ANGLO-AMERICAN POLICIES, PARTICULARLY IN PREPARATION FOR MULTILATERAL MEETINGS IN THE MAJOR INTERNATIONAL ORGANIZATIONS.

2. SPECIFIC U.S. OBJECTIVES AS DESCRIBED REF. C.

OBJECTIVE ONE - SECURITY RELATIONSHIP.

IN 1974, UK CONDUCTED A MAJOR REVIEW OF ITS DEFENSE PROGRAM WHICH LED TO A 1975 DECISION TO REDUCE PLANNED EXPENDITURES AND TO CONCENTRATE ON DEFENSE OF THE HOME ISLANDS AND THE NATO CENTRAL REGION AT EXPENSE OF EXTRA-EUROPEAN MILITARY ACTIVITIES. REDUCTIONS ARE NOT AS WILL INCREASE IN THE NEXT TWO YEARS - AND CONSULTATIONS WITH U.S. AND OTHER ALLIES REDUCED SOME OF NEGATIVE IMPACT. BUT BRITAIN'S ABILITY TO PROJECT POWER OUTSIDE EUROPE WILL BE SERIOUSLY REDUCED AND UK WILL TO DO SO MAY ALSO BE DIMINISHED. WITH NATO'S SOUTHERN FLANK IN TURMOIL AND THE IMMINENT CONCLUSION OF CSCE LIKELY TO REINFORCE THE PUBLIC BELIEF THAT A REDUCTION OF EAST/WEST TENSIONS IN CENTRAL EUROPE IS AT HAND, HMG - WHICH RECOGNIZES BOTH AS REAL AREAS OF DANGER - MAY BE RECEPTIVE TO U.S. INITIATIVE AIMED AT BUTTRESSING THE MEDITERRANEAN LITTORAL AND AT ENSURING THAT NATO MAINTAINS A STALWART DEFENSE POSTURE IN EUROPE.

WE RECOMMEND THAT SECURITY RELATIONSHIP OBJECTIVE BE MODIFIED TO INDICATE INCREASED U.S. INTEREST IN SECURING ACTIVE BRITISH EFFORTS TO KEEP NATO STRONG. EMBASSY WILL EMPHASIZE THIS INTEREST IN POLITICO/MILITARY ACTIVIT-

IES IN 1975. WE BELIEVE THAT UK MIGHT BE RECEPTIVE TO INITIATIVES IN THE AREA OF STANDARDIZATION AND CO-PRODUCTION OF EQUIPMENT AS ONE MEANS TO STRENGTHEN /NATO AND SECRET

SECRET

PAGE 03 LONDON 05237 02 OF 05 081349Z

PLANS TO ALLOCATE RESOURCES TO WORK IN THIS AREA.

OBJECTIVE TWO - THE UK AND THE EC.

A BASIC U.S. OBJECTIVE IS A STRONG, VIABLE UK. THE U.S. ASSUMPTION HAS BEEN THAT BRITISH MEMBERSHIP IN EC WILL CONTRIBUTE TO THIS OBJECTIVE AS WELL AS TO THE OBJECTIVE OF A EUROPEAN GROUPING WHICH IS LIBERAL AND OUTWARD-LOOKING IN ORIENTATION. WE HAVE PURSUED AN UNOBTRUSIVE ATTITUDE ON THE QUESTION OF CONTINUED UK MEMBERSHIP IN THE MARKET AND BELIEVE WE SHOULD NOT, SHORT OF A DIRECT REQUEST FROM PRIME MINISTER AND FOREIGN SECRETARY, GO BEYOND POSITION STATED IN STATE 62502, WHICH HAS THEIR APPROVAL. TO GO FURTHER COULD WELL BE INEFFECTIVE, AND POSSIBLY EVEN DAMAGING.

IF UK REMAINS A MEMBER, WE SHALL WISH TO BUILD ON THE SUCCESS OF THE PAST YEAR IN MAKING THE UK A USEFUL "FRIEND AT COURT" IN THE EC. IF BRITAIN ELECTS TO WITHDRAW FROM EC, WE SHOULD DO WHAT WE CAN TO HELP BRITAIN COPE WITH THE ECONOMIC AND POLITICAL DISRUPTIONS THIS WILL ENTAIL; HOWEVER, IT IS TOO EARLY TO BE SPECIFIC ABOUT U.S. POLICIES IN THIS EVENT SINCE BRITISH NEEDS AND PROBLEMS WOULD ONLY BECOME APPARENT AS THE PROCESS OF "DE-NEGOTIATIONS", ITS PACE AND THE ALTERNATIVES OPEN TO BRITAIN BECOME CLEAR. IT WOULD CERTAINLY BE IN U.S. INTEREST, WHILE MAINTAINING SUPPORT FOR THE REMAINDER OF THE EC AND OUR INTEREST IN THE "DIRECTION" IT TAKES, TO MOLLIFY THE REACTIONS OF IRRITATION AND SENSE OF FGVJTRATION WITH WHICH OTHER EUROPEANS ARE LIKELY TO GREET A BRITISH DECISION TO GET OUT. ALTHOUGH A BRITAIN "OUT" OF EUROPE WOULD BE A SUBSTANTIALLY DIMINISHED PARTNER AND ALLY FOR THE U.S., IT WOULD CONTINUE TO BE IN OUR INTEREST TO WORK WITH THE UK AND NOT WRITE IT OFF AS A FACTOR IN WORLD AFFAIRS. AN "AGONIZING REAPPRAISAL" WOULD MAKE AN INAPPROPRIATE RESPONSE.

OBJECTIVES THREE, FOUR AND FIVE - STRENGTHEN U.S. BALANCE OF PAYMENTS AND U.S. INFLUENCE ON UK ECONOMIC POLICY.

SECRET

SECRET

PAGE 04 LONDON 05237 02 OF 05 081349Z

U.S. ECON/COM POLICY IN UK HAS TWO BASIC OBJECTIVES:
(A) TO STRENGTHEN U.S. TRADING, TRAVEL AND INVESTMENT

RICHARDSON

SECRET

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SECRET

PAGE 01 LONDON 05237 03 OF 05 081353Z

53

ACTION ACDA-10

INFO OCT-01 EUR-12 IO-10 ISO-00 ERDA-05 CIAE-00 H-02

INR-07 L-02 NSAE-00 OIC-02 OMB-01 PA-01 PM-03 PRS-01

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S E C R E T SECTION 03 OF 05 LONDON 05237

SECRET

SECRET

PAGE 02 LONDON 05237 03 OF 05 081353Z

POSITION, AND (B) TO EXERT MAXIMUM INFLUENCE OVER UK ECONOMIC POLICIES THAT AFFECT U.S. INTERESTS. THE TWO KEY ISSUES IN 1975/76 ARE THE TIMING AND RATE OF BRITAIN'S ECONOMIC RECOVERY, AND WHETHER THE BRITISH ELECTORATE DECIDES TO REMAIN IN THE EC. THE DEPRESSED STATE OF THE ECONOMY HAS ADVERSELY AFFECTED THE BILATERAL BALANCE OF PAYMENTS. IT HAS ALSO LED TO RENEWED PRESSURE FOR IMPORT CONTROLS, WHICH THE GOVERNMENT HAS THUS FAR SUCCESSFULLY RESISTED. LABOR GOVERNMENT PROGRAMS HAVE INCREASED THE HESITANCY OF INVESTORS, ALTHOUGH THE IMPLICATIONS OF PENDING LEGISLATION FOR U.S. FIRMS IS NOT YET CLEAR. THE IMPORTANT SPECIFIC ISSUES ON WHICH CONTINUING POLICY COORDINATION WITH THE UK WILL BE REQUIRED IN THE NEXT YEAR ARE IN THE FOLLOWING AREAS: DOMESTIC ECONOMIC POLICY, ENERGY, TRADE, INTERNATIONAL MONETARY MATTERS, AND DC/LDC ECONOMIC RELATIONS, ESPECIALLY COMMODITY TRADE.

IN DOMESTIC ECONOMIC MATTERS WE SHALL CONTINUE THE EXTENSIVE EXCHANGE OF VIEWS THAT HAVE CHARACTERIZED THE PAST FEW YEARS AND LED TO A CONSIDERABLE INCREASE IN MUTUAL UNDERSTANDING OF THE BUSINESS CYCLE IN EACH COUNTRY. IN THE ENERGY FIELD OUR INTEREST IS TWOFOLD. FIRST, WE WISH TO CONTINUE THE SUCCESS WE HAVE HAD IN THE PAST YEAR IN ACHIEVING A CLOSE IDENTIFY OF U.S. AND BRITISH POLICIES, PARTICULARLY IN THE INTERNATIONAL ENERGY AGENCY AND IN CONSUMER PRODUCER RELATIONS. SECOND, WE WISH TO CONTRIBUTE TO THE CREATION OF CONDITIONS THAT WILL MAXIMIZE PRODUCTION IN THE NORTH SEA AS EARLYC

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POSSIBLE. HERE, TAZ PROBLEMS ARE PARAMOUNT: INCREASING COSTS AND UNCERTAINTIES REGARDING BRITISH GOVERNMENT POLICIES. IN THIS CONNECTION WE UNDERSTAND THAT OUR LOW-KEY REPRESENTATIONS TO THE BRITISH GOVERNMENT HAVE HAD A FAVORABLE EFFECT BOTH IN THE DEVELOPMENT OF GOVERNMENT PLANS TO IMPOSE A PETROLEUM REVENUE TAX ON COMPANIES OPERATING IN THE NORTH SEA AND IN STIFFENING THE GOVERNMENT'S DETERMINATION TO RESIST PRESSURES TO INTRODUCE "BUY BRITISH" REGULATIONS. WITH REGARD TO FINANCIAL MATTERS BOTH COUNTRIES MUST CONTINUE TO WORK TO IMPROVE THE FUNCTIONING OF THE INTERNATIONAL MONETARY SYSTEM, GIVEN HIGHER ENERGY PRICES AND THE NEED TO ESTABLISH

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SECRET

PAGE 03 LONDON 05237 03 OF 05 081353Z

WORKABLE ARRANGEMENTS TO RECYCLE THE BALANCE OF PAYMENTS SURPLUSES OF OIL PRODUCERS. FINALLY, BOTH GOVERNMENTS ATTACH CONSIDERABLE IMPORTANCE TO HELPING DEVELOPING COUNTRIES TO HELP THEMSELVES AND TO COUNTERING A TENDENCY TOWARDS THE DEVELOPMENT OF SINGLE DEVELOPING COUNTRY POSITIONS ON A WIDE RANGE OF INTERNATIONAL ECONOMIC MATTERS. TO THIS END, WE SHALL CONTINUE TO FOLLOW CLOSELY THE DEVELOPING BRITISH PLANS FOR A NEW COMMODITY INITIATIVE THAT MAY BE LAUNCHED AT THE COMMONWEALTH CONFERENCE LATER THIS MONTH.

ON THE WHOLE, GIVEN THE INFLATION AND RECESSION IN BOTH COUNTRIES, 1974 WAS A BETTER YEAR THAN MIGHT HAVE BEEN EXPECTED. BRITISH FIGURES SHOW AN INCREASE IN IMPORTS (C.I.F.) FROM THE UNITED STATES OF 39 PERCENT, ONLY PART OF WHICH CAN BE ACCOUNTED FOR BY HIGHER PRICES, AND A FOURFOLD INCREASE IN THE U.S. BILATERAL TRADE SURPLUS TO THE EQUIVALENT OF \$1.1 BILLION. THE U.S. SHARE OF THE MARKET DECLINED SLIGHTLY TO 9.7 PERCENT, BUT THIS DECLINE IS CHIEFLY ACCOUNTED FOR BY THE STEEP RISE IN OIL PRICES. TRAVEL TO THE U.S., AT 470,000 WAS DOWN 6 PERCENT, LESS THAN THE DROP IN TRAVEL TO MANY OTHER DESTINATIONS. INVESTMENT BY BOTH COUNTRIES IN THE OTHER UNDOUBTEDLY INCREASED, ALTHOUGH WE DO NOT YET HAVE FIGURES. BECAUSE RESEARCH SHOWED RESPONSE WOULD BE SLIGHT, WE CANCELLED TWO "INVEST IN USA" SYMPOSIA, BUT WE WERE ACTIVE IN ASSISTING U.S. INVESTMENT IN BRITAIN, PARTICULARLY IN THE OIL SECTOR.

RICHARDSON

SECRET

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SECRET

PAGE 01 LONDON 05237 04 OF 05 081359Z

53

ACTION ACDA-10

INFO OCT-01 EUR-12 IO-10 ISO-00 ERDA-05 CIAE-00 H-02

INR-07 L-02 NSAE-00 OIC-02 OMB-01 PA-01 PM-03 PRS-01

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S E C R E T SECTION 04 OF 05 LONDON 05237

SECRET

SECRET

PAGE 02 LONDON 05237 04 OF 05 081359Z

ON THE WHOLE, WE RECOMMEND A CONTINUATION OF THE CLOSE COOPERATIVE RELATIONSHIP WITH THE UK THAT HAS EXISTED IN ALL FIELDS. A BRITISH DECISION TO WITHDRAW FROM THE EC WOULD REQUIRE A BASIC RE-THINK OF OUR POSITION, BUT FOR THE TIME BEING WE SHOULD NOT GO BEYOND THE POSITION SUMMARIZED IN STATE 62502.

OBJECTIVES SIX AND SEVEN - DRUG ENFORCEMENT AND PROTECTION U.S. CITIZENS.

WILL BE COVERED IN ANNUAL POLICY ASSESSMENT AIRGRAM.

OBJECTIVE EIGHT - CULTURAL AND OTHER EXCHANGES.

THE OBJECTIVE OF ENCOURAGING CULTURAL EXCHANGES CONTINUES TO BE VALID BUT WE BELIEVE IT SHOULD BE EXPANDED TO INCLUDE OTHER PUBLIC AFFAIRS ACTIVITIES. WE RECOMMEND THAT THE USIS COUNTRY INFORMATION PROGRAM DOCUMENT BE ATTACHED TO THE PARA AS AN ANNEX AND CONSTITUTE THE DOCUMENTATION ON THIS OBJECTIVE.

OBJECTIVE NINE - UK SUPPORT FOR U.S. POLICY OUTSIDE EUROPE.

THE UK CONTINUES TO PROVIDE VALUED SUPPORT FOR U.S. POLICY OBJECTIVES OUTSIDE EUROPE. UK ABILITY TO INFLUENCE WORLD EVENTS HAS BEEN REDUCED IN RECENT YEARS BUT THE COMBINATION OF AN ABLE AND INTERESTED CIVIL SERVICE AND WIDE-SPREAD IMPORTANT ECONOMIC RELATIONSHIPS MEANS THAT THE UK STILL CAN MAKE A SIGNIFICANT IMPACT ON SPECIFIC WORLD PROBLEMS. EXAMPLES ARE:

CYPRUS. THE UK CONTINUES TO PLAY AN IMPORTANT ROLE IN CYPRUS. U.S. AND UK HAVE CONSULTED FREQUENTLY SINCE CRISIS OF SUMMER 1974. UK GENERALLY SUPPORTED U.S. POLICY. WE SHOULD CONTINUE THIS EFFORT AS ONE ASPECT OF OUR CYPRUS POLICY.

MIDDLE EAST. THE UK KEEPS A LOW PROFILE ON THE SECRET

SECRET

PAGE 03 LONDON 05237 04 OF 05 081359Z

MIDDLE EAST, SUPPORTING THE CONTINUED EXISTENCE OF ISRAEL BUT MAINTAINING A CORRECT RELATIONSHIP WITH THE ARAB STATES. THE BRITISH MAINTAIN STRONG ECONOMIC AND POLITICAL TIES IN THE AREA, HOWEVER, AND CAN BE USEFUL TO US IN REINFORCING OUR AREA POLICIES. OUR CONSULTATIONS WITH THE BRITISH ON THE MIDDLE EAST HAVE BEEN SATISFACTORY AND SHOULD CONTINUE.

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SECRET

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SECRET

PAGE 01 LONDON 05237 05 OF 05 081353Z

53

ACTION ACDA-10

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S E C R E T SECTION 05 OF 05 LONDON 05237

SECRET

SECRET

PAGE 02 LONDON 05237 05 OF 05 081353Z

AFRICA. THE UK HAS IMPORTANT INFLUENCES IN AFRICA,
PARTICULARLY IN SOUTHERN AFRICA, AND HAS A STRONG POLICY
OF PARTICIPATION IN EFFORTS TO SOLVE THE PROBLEMS OF THE
AREA. WE HAVE WORKED CLOSELY WITH THE BRITISH ON THESE

PROBLEMS. WE SHOULD CONTINUE THIS COOPERATION TO FURTHER OUR OWN INTEREST IN PEACEFUL CHANGES IN THE AREA.

THE U.S. SHOULD CONTINUE TO MAKE A SPECIAL EFFORT TO INVOLVE THE UK IN PROBLEMS OUTSIDE THE EUROPEAN AREA. THE EMBASSY OFFICER POSITIONS FOR MIDDLE EAST AND AFRICAN EXPERTS SHOULD BE MAINTAINED. U.S. SHOULD CONTINUE TO HAVE FORMAL CONSULTATIONS WITH UK ON MIDDLE EAST, EAST ASIA, SOUTH ASIA, INDIAN OCEAN AND ON UNITED NATIONS AFFAIRS.

3. RESOURCES. EMBASSY WILL CONTINUE TO REQUEST INCREASES IN LOCAL TRAVEL AND REPRESENTATIONAL FUNDS IN ORDER TO COVER MORE EFFECTIVELY POLITICAL, LABOR AND ECONOMIC/BUSINESS ACTIVITIES OUTSIDE LONDON. STATISTICS ON PERSONNEL AND OTHER ASPECTS OF FUNDING WILL BE FORWARDED BY AIRGRAM.

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